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Blue Shield cancels insurance rate increase

The healthcare premium increase, averaging 6.5% and going as high as 18%, would have been the third in recent months by the insurer, which had faced pressure from state officials and consumers.

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By Duke Helfand, Los Angeles Times
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Blue Shield of California's decision to cancel a big rate hike for nearly 200,000 people followed mounting pressure from the public and political leaders. But an unforeseen factor may have made the retreat easier for the company to accept: It's paying out less for medical claims than it had anticipated.

And it's not just Blue Shield. Major insurers including WellPoint Inc. and Aetna Inc. also say that medical spending has been lower than projected recently, saving the companies millions of dollars in payouts.

Company officials say that is largely because people are going to the doctor less. Many have switched to cheaper policies that require them to shoulder a greater share of the cost — and that has them thinking twice about discretionary visits.

"In times of recession, you see people choosing to forgo elective procedures because of their budgets," WellPoint spokeswoman Kristin Binns said.

That trend could bolster the arguments of some healthcare experts who contend that Americans overuse medical services because they generally don't have to pay much for them, and that the only way to bring rising healthcare costs under control is to shift more of the expense to patients.

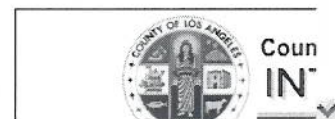
If people continue to be more thrifty in their medical decisions, it could slow the rise of healthcare costs, some believe.

"This is a win-win potentially for both health insurers and the insured," said insurance analyst Gavin Magor of Weiss Ratings in Jupiter, Fla., which recently reported no rise in medical spending for hundreds of insurers nationwide for most of 2010.

But with many people struggling just to get by, shifting more health costs to them carries the risk that they will skip vital care, health analysts say.

"When you put preventive services off, you put off appropriate care that may have helped save you from having a more costly condition," said Shana Alex Lavarreda of the UCLA Center for Health Policy Research.

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On Wednesday, Blue Shield withdrew a planned May 1 rate hike for individual policyholders that would have averaged 6.5% and gone as high as 18%, saving customers \$35 million to

\$40 million this year. That increase followed other recent hikes that, cumulatively, would have driven up rates as much as 86.5% since October.

The rate hikes had triggered widespread criticism since they were first disclosed by The Times in January.

Insurance Commissioner Dave Jones applauded Blue Shield for its action and said he hoped other insurance companies with pending rate increases — Anthem Blue Cross, Aetna and PacifiCare — would take notice.

"Today's announcement is a welcome development and certainly relief for nearly 200,000 policyholders, and reminds us all that insurance companies hold all the cards when it comes to setting rates," Jones said.

Blue Shield said it was withdrawing the increase out of concern for policyholders and that there would be no further rate hikes until at least 2012.

"The best way to fulfill our mission and make reform work is to keep costs down," Chief Executive Bruce Bodaken said. "By agreeing not to raise rates this year, we are helping to make coverage more affordable for our members during tough economic times. It's a financial risk for us, but a risk that's worth taking."

But a spokesman also acknowledged that Blue Shield's payouts for medical care came in below projections in the latter part of 2010. The company is trying to determine why but believes that one factor involves the practice of "benefit buy downs" in which customers switch to less expensive policies with higher deductibles and fewer benefits.

"It's definitely happening," said Blue Shield spokesman Tom Epstein. "As rates go up, people do tend to downgrade into less rich products that have more cost sharing."

Major insurers said in recent financial earnings reports that they spent less on medical care in the final months of 2010 than they had anticipated.

WellPoint, for example, said medical utilization fell below projections in 2010 — one of several factors that contributed to rising profit.

The Indianapolis-based insurer, the nation's largest by membership, attributed the slower medical spending to a drop in swine flu costs compared with 2009, when people flocked to doctors for vaccines, and to fewer claims from jobless people whose benefits had run out.

WellPoint and other insurance companies said lower costs would not necessarily translate into smaller rate hikes in the future because of rules in the federal healthcare overhaul that require insurers to spend more on healthcare.

Although Blue Shield is scrapping the May rate hike, it is not rescinding increases that went into force in October and January. Those hikes raised policyholders' bills an average of 23% and as much as 58%, although some customers got a small decrease.

Blue Shield policyholder John Lewis has swallowed rate hikes totaling 47% since October. Had the May increase taken effect, his bills would have gone up by 73%.

Lewis said he was considering downgrading his policy to a less expensive option with a higher deductible.

"If they can raise the rates so dramatically as they have it in the last six months, who's to say it won't be triple what I'm paying?" he said. "Why stick with something that is obviously getting out of control?"

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